



September 28, 1981

SUBJECT: Analyzing Credit Needs and Graduation
of Borrowers

TO: All State Directors, District Directors,
and County Supervisors

The purpose of this AN is to provide emphasis and serve as a reminder that the graduation review period will begin October 1. State Directors (SD) and District Directors (DD) will establish a follow-up system that will guarantee that this high priority task is accomplished. Recent field visits and OIG reports reveal that much more effort must go into the graduation of borrowers to other credit in order to carry out the intent of the graduation policy.

For loans to individuals, the basic responsibility to see that graduation to other credit occurs is that of the CS; however, I cannot over emphasize the importance of the role the SD and DD must play. CS and DD will fully explain to borrowers prior to and at loan closing that FmHA loans are a temporary source of credit and that they will be requested to refinance their loans with other lenders when such credit is available to them.

Before the graduation review starts, the CS will meet with other lenders in the area, such as, Federal Land Bank (FLB), Production Credit Association (PCA) Bankers, Insurance Companies, etc. so that they will have a thorough knowledge of the lending practices of other lenders. These other lenders' policies will be documented in the County Office operational file. Also, at this meeting, the CS will inform other lenders of FmHA's graduation policy. The DD will follow-up to see that these discussions are held and documented.

The CS must be well enough informed about the borrowers that she/he can review the list submitted by the Finance Office and identify those borrowers who clearly cannot refinance. The reason why these borrowers cannot refinance will be documented on the print-out sent from the Finance Office and this print-out will be filed in the operational file with the Form FmHA 451-24 that is signed and dated by the County Committee. On the remaining borrowers to be reviewed by the County Committee, the CS will obtain a current income and expense statement and a financial statement prior to the review by the County Committee. If a borrower does not respond, the CS will assume that the borrower has the resources necessary to graduate and borrower will be requested then to graduate.

EXPIRATION DATE:
April 30, 1982

FILING INSTRUCTIONS:
File Preceding FmHA Instruction 451.6

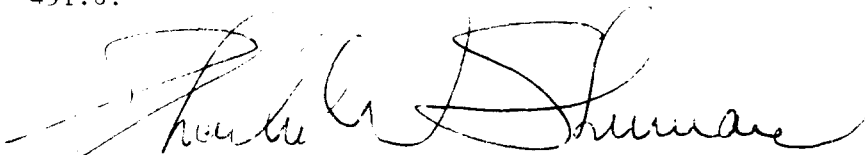


Upon completion of the review, the CS will prepare Form FmHA 451-24 for the Committee's signature. The DD will review the list of borrowers requested to graduate and determine if the CS is meeting the intent of the graduation policy. The CS will notify each borrower required to graduate by use of FmHA Guide Letter No. 451-1.

The CS will require documentation from the borrower in the event that they cannot graduate and such documentation will be placed in the borrower's case file. If the financial statement and income are such that the CS believes that the borrower can refinance even though the borrower has obtained a letter of refusal, the CS will contact the lender for an explanation as to why credit is not extended. The difference in interest rates of FmHA and other lenders will not be a reason for not refinancing if credit is otherwise available. For those borrowers who do not refinance or furnish evidence that they cannot refinance, the CS will submit to the State Director the case file, a current Farm and Home Plan, Form FmHA 455-1 "Request for Legal Action" or in the case of real estate, Form FmHA 465-7 "Report on Real Estate Problem Case." The State staff will follow the normal review required by FmHA Instruction 451.6.

Guaranteed Loans will be used as a form of graduation when other lenders will not refinance borrowers without a guarantee.

Let me emphasize again, the input of the State and District staff are a very necessary element in carrying out the intent of FmHA Instruction 451.6.

A handwritten signature in dark ink, appearing to read "Charles W. Shuman", written in a cursive style.

CHARLES W. SHUMAN
Administrator